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GOOD PENSIONS FOR CANADA

BRIEF TO
THE PARLIAMENTARY TASK FORCE
ON PENSION REFORM

A participant in the United Way

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BRIEF TO
THE PARLIAMENTARY TASK FORCE
ON PENSION REFORM

by the
Social Planning Council
of Metropolitan Toronto

July 1983

PREAMBLE

The Government of Canada published its green paper on pension reform, entitled Better Pensions for Canada, in early 1983. There is little disagreement in Canada today that the nation's pension system requires reform. Even recent review of our pension system, whether undertaken under government or non-governmental auspices, has concluded that major reform is required. Whether or not to reform Canada's retirement pension system is not at issue. At issue is the substance of that reform. It is the view of the Social Planning Council of Metropolitan Toronto that Canada's pensioners need more than a "better" pension system. They need and deserve a "good" pension system.

Canada's history is replete with examples of improved pensions that are nevertheless inadequate. The current system exemplifies this history. It resulted from federal-provincial compromise, as well as compromise amongst the provinces. It also represented a compromise between a public interest which would have seen Canada's old people and its retired workers treated decently and generously, and private interests that wanted to see public, collective savings and investment kept at minimal levels and the incentive for private savings as large as possible. The inadequacy of that compromise was also generally recognized.

The guaranteed income supplement, which was implemented in 1966 shortly after the Canada Pension Plan (CPP/QPP) was legislated and which nearly half of Canada's elderly receive, was supposed to be a temporary measure that could be phased out as the CPP/QPP matured. Many observers saw early on that the GIS would likely never be phased out. The better and improved pension system legislated in 1966 was simply not adequate. When the next round of pension reform is completed it would be nice of Canadians did not have to turn their minds to pension reform for a while.

In the same vein the Social Planning Council of Metropolitan Toronto is certainly in full agreement with the three main principles of the federal government green paper: 1) that elderly Canadians should be guaranteed a reasonable minimum level of income; 2) that opportunities and arrangements available to Canadians to provide for their retirement

should be fair; and 3) that Canadians should be able to avoid serious disruption of their pre-retirement living standards upon retirement. We disagree that the proposals contained in the green paper satisfy those very laudable principles, and we would moreover offer a fourth principle. Elderly and retired Canadians should not by and large be dependent on means-tested income payments, such as represented by the Guaranteed Income Supplement (GIS), to maintain themselves adequately in their retirement years. Canadians should have access to earned benefits, benefits that accrue to them either because they or their spouses have earned income throughout their lives or which accrue to them as a result of having lived in Canada and contributed to Canada and Canadians for all or major parts of their lives. Means-tested income payments, whether known as welfare, the dole or some other less tainted name, must be phased out. Good pensions are a right and an earned benefit.

The Involvement of the Social Planning Council

The Social Planning Council of Metropolitan Toronto has been a major contributor in the study of retirement and incomes for the elderly. The Council has published five major studies in the past eight years on the needs of the elderly: The Aging: Trends, Problems, Prospects (1973); Budget Guide for the Elderly (1976); Housing and the Elderly (1977); Pensions: Passport to Poverty (1979); and Old Age Insecurity: A Study of Income, Expenditure and Pension Requirements of the Elderly (1978), the latter of which was the basis for our brief to the Ontario Royal Commission on the Status of Pensions. The Council has in the past presented briefs to the Ontario Royal Commission on the Status of Pensions and to a Select Committee of the Ontario Legislature that subsequently scrutinized the report and recommendations of the Royal Commission.

The Social Planning Council has Emphasized the Need for Adequate Incomes

The Social Planning Council has pioneered work into an assessment of income adequacy. This has taken the form of pricing a range of commodities and services, and determining the minimum requirements for a particular family or age characteristic to live in Metropolitan Toronto. The Council believes this is the most realistic method of assessing the minimum adequate standard of living for different types and sizes of families.

The adequacy standards specified by the Guides for Family Budgeting are not at the subsistence level. Rather, the Guides present standards of adequacy designed to maintain social and physical well-being of different households. Because income requirements in the Guides are based on the cost of each commodity or service specified for each type of household and for each different individual, they have value when compared to more rigidly designed and universally applied income standards, such as Statistics Canada's low income cut-off, or income assistance programs, such as Ontario's Guaranteed Annual Income Supplement (GAINS), which supplements the federally financed Old Age Security (OAS) and Guaranteed Income Supplement (GIS).

Our purpose in preparing this brief, as previously in our presentation to the Ontario Royal Commission on the Status of Pensions, is to put forward a notion of minimum adequacy that is a basis for developing a retirement income system. In addition to providing standards for means-tested pensions for those elderly persons whose earned retirement rights or savings do not enable them to live at commonly accepted levels upon retirement, the standards of income adequacy developed by the Social Planning Council can assist in establishing standards for our pension system.

The Economic Circumstances of the Elderly

The median income of the elderly was less than half (43%) of the median income of the rest of families and unattached individuals in Canada in 1980.[1] Approximately the same pattern holds when families and unattached persons are considered separately. Families with heads 65 and over had incomes about 48 per cent as great as those of families with heads under age 65 in 1980. Unattached individuals 65 years and over had incomes estimated to be only 51 per cent as large as those of younger unattached individuals in Canada.[2]

The median income for an elderly-headed family was $14,055 in 1980. Unattached elderly individuals had median incomes of $5,684 in 1980.[3] About 70 per cent of the unattached elderly persons were women. In comparison, the Statistics Canada poverty line for 1980 for urban areas with over 500,000 people was $7,152 for individuals and $9,436 for couples.[4]

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1. Statistics Canada, Income Distribution by Size in Canada, 1981, Table 4.
2. Council estimates based on Income Distribution by Size in Canada, 1980.
3. Council estimates based on Income Distribution by Size in Canada, 1980.
4. Statistics Canada, Income Distributions by Size, 1980, Appendix, p.125.

In 1980 the proportion of elderly couples below the poverty line was 13.9 per cent, while the proportion of elderly individuals below the poverty line was 61.2 per cent.[5]

The Social Planning Council's standards of adequacy served to underline the inadequacy of the incomes of the unattached elderly. They also help to confirm the relatively better standard of income of most elderly couples. The Guides standards specify incomes ranging from $9,102 to $8,669 for elderly individuals and from $12,804 to $12,848 for couples in 1982. In each case the lower of the two incomes represents the needs of homeowners (single or married) while the higher of the two represents the income needs of renters. Compared to Guides standards, the median Canadian income of unattached elderly persons ranged from 16 to 22 per cent below adequacy, while the median income of elderly couples ranges from 35 to 41 per cent above the adequacy standard. Moreover, these standards indicated that while about 29 per cent of elderly couples were below the adequacy standard in Canada about 65 per cent of elderly individuals were below that standard.[6]

Retirement Income Guarantees

The retirement income guarantees in Canada, and as supplemented under the Guaranteed Annual Income Supplement (GAINS) in Ontario, as well as similar programs in four other provinces, have an important bearing on the wide disparity between the incomes of elderly couples and individuals. Table 1 shows the GAINS retirement income guarantees, including Ontario Tax Grants, for a single elderly person and a married couple and the Council's adequacy standards for April 1981.

While the guaranteed retirement income for an elderly couple in Ontario in April 1981 approximately equalled the Council's adequacy standards, Council standards for an unattached elderly person were 21 to 31 per cent higher than income guarantees.

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5. Statistics Canada, Income Distribution by Size in Canada, 1981.
6. Statistics Canada, Income Distribution by Size in Canada, 1980.

Table 1

Guaranteed Retirement Income in Ontario including Tax Grants[1] and Selected Social Planning Council Budget Requirements for the Elderly, April, 1981

	Annual Income		Per Cent of Total Retirement Income	
	Single	Couple[2]	Single	Couple
	$	$	$	$
OAS-GIS-GAINS Income Plus Ontario Tax Grants	6,143	11,126	100.0	100.0
Adequacy Standards:				
Renters[(1)]	8,049[(3)]	11,294[(4)]	131.0	101.5
Home Owners[(2)]	7,426[(5)]	10,974[(6)]	120.9	98.6

1. Assumes property taxes of $500+ or rental payments of $2,500+ a year. (See the Appendix for details of the Council's adequacy standards for the elderly.)
2. For couples where both spouses are 65 or over.
3. Elderly woman renter with food at home and away.
4. Elderly couple who rent with food at home and away.
5. Elderly male homeowner with food at home and away.
6. Elderly couple with mortgage-free home and used care with food at home only.

Income Declines in Retirement

Canadians are now subjected to significant declines in income upon retirement. Table 2 portrays the income of both couples and single women aged 50 - 64 and aged 65 and over.

Table 2

Average Income by Source and Median Income of Women Age 50 and Over in Ontario
By Marital Status and Household Size in 1980 (Estimated) *

I. Income by Source:	Total Median Income $	Total Average Income $	Earnings $	Invest-ments $	OAS/GIS $	CPP $	Other Pension $	Estimated Tax Credits $	Other Income $
Age 50-64:									
Couple	23,982	26,919	22,240	1,963	484	484	995	81	672
Single-Alone	13,019	14,224	10,056	1,764	0	185	1,636	171	412
Widows/Div/Sep - Alone	6,174	9,814	5,575	1,521	0	991	373	186	1,168
Age 65+:									
Couple	12,176	17,709	3,164	4,259	4,659	1,731	2,600	549	747
Single-Alone	9,036	9,182	624	1,985	2,456	957	2,474	526	160
Widows/Div/Sep - Alone	5,303	6,961	452	1,839	2,642	530	717	524	257
Age 65-74:									
Couple	14,660	19,133	3,871	4,401	4,486	2,009	2,889	544	933
Widows/Div/Sep - Alone	5,645	7,937	543	2,254	2,651	786	921	521	261
Age 75+:									
Couple	10,441	12,485	568	3,740	5,294	713	1,539	568	63
Widows/Div/Sep - Alone	4,964	5,802	343	1,346	2,631	227	476	548	251

II. Percent Average Income By Source:	Total %	Earnings %	Invest-ments %	OAS/GIS %	CPP %	Other Pension %	Estimated Tax Credits %	Other Income %
Age 50-64:								
Couple	100.0	82.7	7.3	1.8	1.8	3.7	.3	2.5
Single-Alone	100.0	70.7	12.4	0	1.3	11.5	1.2	2.9
Widows/Div/Sep - Alone	100.0	56.8	15.5	0	10.1	3.8	1.9	11.9
Age 65+:								
Couple	100.0	17.9	24.0	26.3	9.8	14.7	3.1	4.2
Singel-Alone	100.0	6.8	21.6	26.7	10.4	26.9	5.7	1.7
Widows/Div/Sep - Alone	100.0	6.5	26.4	38.0	7.6	10.3	7.5	3.7
Age 65-74:								
Couple	100.0	20.2	23.0	23.4	10.5	15.1	2.8	4.9
Widows/Div/Sep - Alone	100.0	6.8	28.4	33.4	9.9	11.6	6.6	3.3
Age 75+:								
Couple	100.0	4.5	29.9	42.4	5.7	12.3	4.5	.5
Widows/Div/Sep - Alone	100.0	5.9	23.2	45.3	3.9	8.2	9.4	4.3

* S.P.C. Estimates of Married Couple's income excludes households with other than two persons. Estimates for Single (never Married) and Widowed, Divorced and Separated Women are for one person households only.

The average retirement income of couples with the wife aged 65 and over in 1980 was 65 per cent of that of couples with the wife aged 50 - 64. Those couples with the wife aged 65 - 74 fared better. Their incomes were 29 per cent less than that of couples with the wife aged 50 - 64 years.

The lack of inflation protection in Canada's pension system becomes evident when one examines the income of those couples with the wife aged 75 years and over. Their total average income was only 46 per cent of that of the younger couples (wife age 50 - 64) in 1980.

The pension income system replaces only a small part of earnings of retired couples. Average total income from earnings-related pensions, both the Canada Pension Plan and the private pension system, for couples with the wife aged 65 years and over was less than one-fourth of the total income of younger couples. Couples with the wife aged 75 years and over had pensions worth only 46 per cent as much as couples with the wife aged 65 - 74 years. The current Canadian pension system and the inflation protection that it provides (or doesn't) is such that the elderly just get poorer as they age.

The retirement income system performs even less well for unmarried women, both those who have lived alone and earned money income for most of their adult lives and even more so in the case of women left alone as a result of divorce or separation on the death of their male spouses. Elderly women (never married) had incomes only 39 per cent as great as couples, while their spending needs are 70 per cent as great. Pensions received by elderly widows/divorced/separated were only 29 per cent of those received by couples. Again, their spending requirements are closer to 70 per cent as much. As long as we rely to a large extent on earnings-related pensions and as long as women do not receive equal pay for work of equal value this will likely be the case.

The Social Planning Council recommends that the GIS for single elderly people be increased immediately so that single elderly people receive 70 per cent as much as couples. The principle that singles should

be guaranteed a higher income than couples was recently supported by the Ontario Legislature's Select Committee on Pension Reform, although the level they recommended was 60 per cent.

The Canada Pension Plan

The effect of Canada's pension plan upon the retirement incomes of Ontario's elderly depends on a number of factors, and although persons who had a long attachment to the labour force and retired recently will greatly benefit, the incomes of many retired persons have not yet been greatly increased above the level guaranteed by the guaranteed income system.

The most optimistic scenario for an unattached elderly person is that of someone who was employed 85 per cent of the time since 1966 in Canada and paid the maximum Canada Pension Plan contributions during that time and retired in early 1981. This person would then be entitled to the maximum allowable Canada pension benefits of $274.31 a month in 1981. In April of 1981 the OAS-GIS-CPP retirement income of that person would be $554.39 or $6,653 on a yearly basis, $1,060 more than the OAS-GIS-GAINS income of $5,593. Including Ontario tax grants, the total income would be $7,203. Despite this improvement, the maximum possible pension and tax grants would still leave an elderly renter about 11 per cent ($846) below the Council's adequacy standard. A single elderly homeowner with the maximum CPP would find his income 3 per cent below the Council's income standards. This performance on the part of Canada's pension system is unacceptable.

Many unattached elderly persons do not qualify for the maximum Canada Pension. Moreover, for the Canada Pension Plan to increase retirement income beyond the GAINS guarantee in April 1981, it must be greater than $100 a month.

A large number of present pre-retirement age married women will be widowed before or after retirement. In 1976 over 66 per cent of married women age 55 to 64 in Ontario were not in the labour force. Many of these women will eventually receive a survivors pension. In 1981 the maximum

survivors pension was $164.59 a month which, together with OAS and GIS, would result in a total retirement income of $499.52 in April 1981 or $6,544 on a yearly basis including Ontario tax grants.

Total retirement income with the maximum survivors pension and tax grants, however, would leave a widow with an income about $1,500 (19%) below the Council's adequacy standards for an elderly woman renter and nearly $700 (9.4%) a year below the standards for an elderly woman homeowner in April 1981.

Thus even with maximum CPP benefits, the retirement incomes of unattached elderly renters in Ontario are from 11 to 19 per cent below Council adequacy standards, while unattached homeowners (no mortgage) had incomes 3 to 9 per cent below adequacy standards. Persons who retired before 1981 or were not eligible for the maximum CPP benefits would have greater adequacy shortfall.

Conclusion

While the preceding analysis of Ontario's retirement income needs and benefits is not comprehensive, it does focus upon the crucial, publicly planned aspects of retirement income. Changes are needed.

In a speech before the 1973 Canadian Pension Conference, the Hon. M. Lalonde, then the minister of Health and Welfare Canada, articulated a view which still likely represents the views of federal and provincial governments. He said:

> "The CPP was not set up to provide a total retirement income. Rather, it was viewed as the middle tier of a three tiered system - Old Age Security, the Canada Pension Plan and private pension benefits and annuities. The first two components were geared to insure adequacy the third, to provide whatever supplementary margin was desired."

Based on the above analysis, the Minister's view can be seen as a commitment which has only partly been realized. In Ontario, most elderly

couples have incomes that achieve a modest adequacy or higher standard of living. Unattached elderly persons have generally not achieved adequate incomes through government programs or their own retirement savings.

Recommendations

The above analysis of the economic condition of the elderly, together with our analysis of changes in income occurring upon retirement compel us to make recommendations which do more than tamper in gentle ways with the existing retirement income system. Our recommendations are designed to meet the three principles set forth in the federal government's 1982 green paper, as well as the fourth that we are asserting herein, that the retirement income of Canadians should be dependent primarily on earned pension credits and not on means-tested payments.

Desirable Retirement Incomes

The Social Planning Council agrees with the principle that Canada's retirement income system should "avoid serious disruption of living standards upon retirement," especially if this means that the living standards of Canadian pensioners are to be maintained throughout their retirement years. However, we find that no one, and this includes ourselves up to now, has defined a significant disruption.

Almost all references, and this includes the 1982 federal green paper, refer to "middle income" Canadians, meaning retired couples in the 20th to 80th income percentile ranges, those with incomes from $15,000 to $40,000 in 1982. The green paper indicates that one-third of middle income elderly couples currently experience a 15 per cent decline in living standards and one-sixth suffer a 25 per cent decline. We think that these data should not be accepted at face value and that the analysis in the green paper is flawed. The analysis emphasizes elderly couples to the exclusion of single elderly persons. In addition, the reference standard is obtained by averaging income over the working life of a married couple. A higher reference standard would have been obtained, for instance, had the final years of income been considered as is the

current practice with many private pension plans. The analysis moreover assumes that the equity in owned homes and other assets are eventually converted to income and that the Old Age Supplement (OAS) keeps pace with wages when in fact the OAS is indexed to the cost of living (CPI) rather than to average wage levels. In her presentation to this Parliamentary Task Force, the Minister of National Health and Welfare, the Hon. Monique Begin, asserted that even the exclusion of the last two assumptions would result in two-thirds of Canadians experiencing a decline of 25 per cent or more in living standards. Although not stated in the green paper, a 25 per cent decline is presumably a "serious disruption" in income.

We are more attracted to our own analysis of the decline in income that comes with retirement. Retirement pensions, including the CPP, are on average only 20 per cent of pre-retirement earnings and average total income of elderly couples is about two-thirds of incomes of couples in their pre-retirement years. The tax system and the special benefits which elderly Canadians receive in it, alters this situation slightly, but we make further recommendations regarding taxes and elderly Canadians below.

The Social Planning Council cannot therefore accept the complacency with which the green paper projects the choices for Canada's future pension system. The range of options for us is much narrower than that projected in the green paper. Our recommendations are designed to assure that the living standards of retired Canadians are maintained.

The federal green paper provides abundant evidence as to the inadequacy of employer-sponsored plans and private arrangements. In 1980 about 45 per cent of Canadian workers were enrolled in employer-sponsored pension plans. Half of these workers were public sector workers. Fewer than a third of private sector workers belong to an employer-sponsored pension plan.

It is important to note that the inability of the private retirement system to provide adequate pensions, as well as the likelihood that a

majority of workers would never be covered, was pointed out by Leonard Marsh in the report Social Security for Canada, forty years ago. Since then the extent of coverage has increased from under 30 per cent to 45 per cent. That's not much progress in 40 years, particularly if one excludes public sector pensions. One possible solution to the problem of under coverage would be mandatory private pensions. We do not foresee Canadian governments ever mandating such a system. The Minister of National Health and Welfare told the Parliamentary Task Force that her colleague, the Minister of Finance, was currently opposed to mandating private pension plans. Her recommendation to the Parliamentary Task Force was that maximum benefits under the Canada Pension Plan be increased from the 1982 level of 18.4 per cent of average industrial wages to the legislated level of 25 per cent over a period of three years.

The Social Planning Council recommends that benefits under the Canada/Quebec Pension Plan be increased to a level equivalent to 50 per cent of the average industrial wage, not 25 per cent as currently. This recommendation is consistent with the recommendation of the Lazar report (Government of Canada, Task Force on Retirement Income Policy, 1979) which recommended expanding CPP/QPP benefits to 40 - 45 per cent of wages up to 1.5 times the average industrial wage. It is also consistent with the recommendations of the Ontario Royal Commission on the Status of Pensions, which recommended that the CPP be supplemented by a mandatory Provincial Universal Retirement System (PURS), similar to an RRSP account, to which both employees and employers would contribute. It is higher than the 37.5 per cent of the average industrial wage recommended by COFIRENTES, a study group of the Government of Quebec. Acceptance of our recommendation to expand the CPP/QPP would extend pensions to the 62 per cent of employed women and 46 per cent of employed men currently not enrolled in private pension plans.

The Social Planning Council has given considerable thought to reconciling the principle that all retirees have adequate living levels without applying for means-tested benefits as in the case of the GIS with the principle continuity of level of living. Those two principles are in conflict in the case of those, many of them women, who earn income

at low levels, as well as in the case, again mostly women, of those with few or no earnings at all.

We have two suggestions for reconciling these two principles.

The Social Planning Council recommends that the Old Age Supplement (OAS) be increased from its present level, which approximates 14 per cent of the average industrial wage, to be fixed at 25 per cent of the average industrial wage. This would go a long way towards eliminating the need to apply for the means-tested GIS for everyone except those people who had no labour force earnings during their adult lives.

The Social Planning Council also recommends that benefits from the expanded CPP/QPP be placed on a sliding scale. Several western democracies have adopted this policy. This would be accomplished by providing a minimum pension (minimum pension credits) equal to 50 per cent of the maximum pension of half the average industrial wage. Thus persons earning below half the average industrial wage, when their expanded CPP was added to the enlarged OAS payment, would experience no reduction in living standards upon retirement, and they would have an "adequate" income in their retirement.

Minimum Adequate Incomes

Notwithstanding the fourth principle for a retirement income system, the Social Planning Council recommends that the guaranteed income for single elderly persons be increased to 70 per cent of the income guaranteed to a married couple. This recommendation is based on our determination that guaranteed income levels for married couples currently provide incomes that are adequate by the standards set forth in our Guides for Family Budgeting.

If the above recommendation had been in place in 1982, it would have resulted in a 48 per cent increase in the Guaranteed Income Supplement (GIS), increasing the OAS-GIS guarantee for single elderly persons to $7,059, or 70 per cent of the $10,084 currently guaranteed couples in 1982.

However, if OAS payments are increased to 25 per cent of the average industrial wage over a ten year period, as recommended by the Social Planning Council, the maximum amount payable under GIS would decline about 20 per cent or more in constant dollar terms over that period.

One other possible solution to the problems presented by the inadequate incomes of single elderly persons who live alone would be to provide a shelter related supplement. The low usage of such supplements in those provinces that have established such supplements on their own, as well as the administrative complexity of such supplements, leads us to prefer an increase in the guarantee level for all single elderly persons. That over 60 per cent of single elderly persons live below the poverty line is not acceptable to this Council.

Special Considerations for "Good" Private Pension Plans

The federal green paper recommends as one option that the CPP/QPP be expanded, but that those private pension plans providing adequate benefits be given special consideration, such that plan members and their employers could continue to support these plans in their present form. In her submission to the Parliamentary Task Force the Minister of National Health and Welfare said that she was favourably disposed towards this treatment of existing employment-related pension plans.

The rationale for such an exclusion is clear. While it would protect the integrity of existing pension plans, the primary reason for such exclusion is that it would also protect and enhance the role of private market forces in the Canadian economy. There is considerable fear in the nation that an expanded CPP/QPP would detract from the incentive to save and displace private investment capital, although it should be added that no one has ever proven that this would happen or even that it happened after the present CPP/QPP came into effect.

It is not certain how many registered pension plans would qualify under such a program. Many current arrangements would undoubtedly

not qualify under whatever regulations would be drafted, although an incentive to make them qualify would thus be put in place.

The Social Planning Council recommends that such exclusions not be allowed. It is important that whatever benefits are public policy be available on a universal basis. The funds that would back-up the expanded CPP/QPP, recommended above would impinge on private investment only to the extent that the public plan was funded. If it was not funded at all, if contributions equalled current liabilities, there would in fact be no funds to invest on a long-term basis. If the public plan were fully funded there exist ways in which the fund could be made compatible with any investment priorities.

It is a myth to think that the investment of private pension funds is free of public intervention in any event. Our Parliament and our provincial legislatures do place restrictions on pension fund investments. These restrictions are designed to protect the eventual recipient. A CPP/QPP fund is not necessarily incompatible with the principles of private enterprise. Further recommendations in this respect are outlined below.

This Council is aware that the full implementation of our recommendations would decrease the incentive for employees to contribute to private plans, as well as remove the demand that employers establish them where they have not already done so. We reject totally, however, the notion that Canadians would save less. Canadians have always saved, and they always will. The extent to which they will save in the future will be governed primarily by the returns on their savings. If the private market cannot provide them with a return on their savings, then it is true that they will not save, but we doubt that supporters of the private market are going to make such a claim.

The Timing of Changes in Benefits

Proposals to provide good pensions for Canadians that rely entirely on the private pension system or on fully funded arrangements

would take anywhere from 30 to 45 years to fully implement. The Social Planning Council considers this too long a period to wait for good pensions for Canadians. We have waited too long already.

At the same time we are fully aware that the full implementation of the recommendations herein would be too disruptive if implemented immediately.

The Social Planning Council recommends that the pensions system projected in this brief be implemented over a period of ten years.

Financing the Canada Pension Plan

Financing the CPP/QPP is perhaps the most critical decision area facing the system. Should benefits be paid entirely from current contributions? from a prepaid, fully-funded account? or should the plan be partially funded?

The Ontario Legislature Committee on Pension reform noted some critical events in CPP/QPP funding, assuming the current method for calculating CPP/QPP contributions. In 1986 benefits will exceed combined contribution rates and interest earned on the CPP invested funds. By 2001 contributions will have to be increased and/or benefits supplemented by other revenues. If the 1991 CPP fund of about $36.1 billion dollars were to be maintained contributions would have to increase from the current 3.6 per cent of earnings to 5 per cent in 2000, 6 per cent in 2010, 8 per cent in 2020 and 9 per cent in the year 2030. The data in the federal green paper support these conclusions.

These projected contribution rates compare more than favourably with current contribution rates of 12 to 20 per cent in most of western Europe. That they compare favourably is important for Canadians to grasp. Many western European countries, especially those in which employer and employee social security or pension contributions are at the high end of the international scale, have a demographic profile, featuring large proportions of old people, that is similar to what Canada anticipates in

the year 2030. It is not unreasonable to expect that Canadians should have to make similar contributions in the year 2030 if our elderly people are to have adequate living standards. It should be added that our population is relatively younger than that of most western European countries as a result of our generous immigration policies. We should not lose sight of this in designing future immigration policies.

Who Invests the CPP/QPP Investment Funds

The federal green paper noted that the main criticism levelled at the public sector approach related to its impact on investments and capital markets. The mixed public-private pension plan approach attempts to overcome this criticism.

The issue also involves relations between the federal and provincial governments. Currently, CPP/QPP funds are turned over to the provinces for investment. Most provinces have invested most if not all of the funds in provincial securities, Quebec being the only exception. Some provinces have even indicated that they will never totally redeem the funds committed in this way thus far.

While the Social Planning Council is not taking a decisive position with respect to the extent to which the CPP/QPP fund should be prepaid we do recognize the need to make the principles governing the investment of retain funds consistent with the nation's other economic objectives. We do not accept the proposition that 100 per cent of funds collected, especially if benefit rates from the CPP/QPP are increased, should be placed at the disposal of provincial treasuries.

The Social Planning Council recommends that first priority for investment of funds be given to national social investment priorities, especially social housing.

Inflation Protection for Employer-Sponsored Pension Plans

It is the view of the Social Planning Council that the private pension system will still have a place following the reforms recommended herein, although those individuals earning at the level of the average industrial wage would be insured against a substantial decline in living standards without the third tier, the private pension system, in Canada's three tier pension system. Workers earning at 1.5 times the average industrial wage would experience over a 50 per cent reduction in income following retirement and would therefore require a private pension if a continuance of pro-retirement living standards was to occur. Discussion of this private pension system and action with respect to improving it is therefore important.

The federal green paper favours the proposals of the Canadian Association of Pension Supervisory Authorities (CAPSA) regarding inflation protection for private pension plans. This is the "excess interest" approach to providing inflation protection to pensioners. This proposal would define "excess interest" as the difference between the average yield on Canada long-term bonds over the most recent five year period and 3.5 per cent, the assumed real rate of return in an inflation-free economy. Historically the real rate of return on investments has ranged from 0 to 2 per cent.

Previously the Social Planning Council endorsed recommendation #139 of the Ontario Select Committee on Pension Reform, which is similar to the CAPSA proposal. The federal government and six of the ten provinces, including Ontario, with legislation covering pension benefits are now in apparent agreement on proceeding with the excess interest approach.

However, it is now our view that the excess interest approach may not be in the best interests of Canada's pensioners. What happens when there is no excess interest? Does this approach provide sufficient inflation protection? It seems that retired employees would bear all of the risk. The only change from the present system might be that companies could no longer use excess interest to reduce or eliminate their own

contributions. If this would be the limit of real benefit from the excess interest approach, then we feel that it is not sufficient. The Social Planning Council recommends that ways and means of providing inflation protection in Canadian pension plans be studied further.

Survivor's Benefits Under the C.P.P.

The federal green paper recommends that, "the current CPP survivor benefits for a spouse aged 65 and over be replaced by a life-time continuing pension equal to 60 per cent of the deceased spouse's retirement pension accrued to date (after credit splitting). The surviving spouse, whether a contributor or not, would thus receive 80 per cent of the CPP/QPP benefits that were coming into the household before the death of the spouse. Combined retirement and survivor pensions could thus exceed the current ceiling of a maximum retirement benefit."

The federal green paper also favours credit-splitting in the case of marriage breakdown. As well, the federal green paper contains a rather elaborate set of recommendations for pre-retirement survivor benefits, including increased benefits for children.

Although reforming CPP/QPP survivor's benefits is clearly not the best way to deal with the financial plight of the single elderly, most of whom do not have any CPP benefits, the proposed reforms represent a major improvement over current CPP survivor's benefits and a fitting answer to the timid conclusion of the Ontario Legislative Select Committee on Pension Reform, which simply indicated that survivor's benefits should be "not less than 60 per cent" of the original pension.

If the federal green paper reforms were adopted, a surviving spouse, where both spouses originally had retirement pensions, could achieve the income which the Social Planning Council considers minimally adequate without additional sources of retirement income. The Social Planning Council supports the suggestions regarding survivor's benefits contained in the federal green paper.

The Retirement Pension System and Women

Many of the proposals in the federal green paper are designed to benefit women in retirement. Many of the Social Planning Council's recommendations regarding the future pension system were likewise conceived with the particular needs of women in mind.

The proposals for improved CPP/QPP survivor's benefits, as well as an immediate increase in GIS benefits for single elderly people, are of real importance to women. The recent approval of the drop-out provision for women raising children, which had been held up for over seven years by the Government of Ontario, will enable more working women to earn maximum CPP retirement incomes.

The Social Planning Council supports the above proposals. We also support proposals for mandatory splitting of earned pension credits in both the CPP/QPP system and the private retirement pension system, as well as increased survivor's benefits in the private retirement system.

Our two recommendations that CPP/QPP benefits, as well as the OAS, be increased, to an average of 50 per cent and 25 per cent of average industrial wages, respectively, together with improved survivor's benefits will in fact increase the pension earned by a retired widow to 65 per cent of the average industrial wage. This is far above proposed GIS levels. In most cases elderly widows would thus be spared the necessity of applying for the GIS as a result of the event of widowhood on all but a few cases and even if they had been homemakers all or most of their adult lives and even if their spouses had none or insignificant private pension benefits.

The Social Planning Council feels strongly that the expanded CPP/QPP and OAS payments overcomes the need to provide specific CPP/QPP benefits for homemakers. We agree with much of the discussion in the federal green paper on the difficulties of extending pensions to homemakers but also feel strongly that the federal green paper falls short of reasonable treatment of women by not providing a system that largely protects elderly widows from the necessity of applying for the means-

tested GIS to obtain incomes that enable an adequate level of living. Our proposals overcome this inconsistency.

The Retirement Pension System and the Tax System

The recommendation contained herein would provide "good" and adequate pensions for retired pensioners. They would therefore eliminate the need for the numerous special provisions for the elderly in the Canadian personal income tax system. The Social Planning Council recommends that these special provisions be eliminated. Implementation of this recommendation would offset some of the public costs of the increased OAS and GIS payments, and they would eliminate the need to treat the elderly as charity cases.

A fairer tax system and tax-back system would also eliminate many of the difficulties of designing an integrated pension and tax system that is not also associated with difficult incentive questions such as those associated with the existing system. Consider some of the following examples of current inequities.

Example 1: Single Elderly Person

In 1982 in Ontario the maximum guaranteed annual income of a single elderly person with no other income was $6,832, including OAS, GIS, GAINS and Ontario tax grants. If that person was also entitled to a maximim annual CPP benefit of $3,692 in 1982, their annual income would have increased by only $1,259 for a total of $8,901 because 66 per cent of the CPP benefits would have been "taxed-back" to reduce the income from the means-tested GIS and GAINS benefits. Lower CPP benefits would face an even higher "tax-back" rate.

Example 2: Elderly Couple - both aged 65 or over

In 1982 the maximum guaranteed annual retirement income of a couple in Ontario was $12,504. If one of the spouses was also entitled to

a maximum CPP benefit of $3,692 in 1982, their annual income would have increased by only $26, because the "tax-back" on the CPP benefits was 99.3 per cent. In order to add just $1,000 to this couple's retirement income of $12,504, they would need $5,640 from the CPP and other sources, for a "tax-back" rate of 82 per cent.

The extremely high "tax-back" rates imposed on earnings-related pension benefits and other investment income are appropriate only if the means-tested income guarantees provide a basically adequate standard of living. This is particularly true in provinces such as Ontario, where the combination of GAINS and GIS imposes a 100 per cent "tax-back" on the first $1,173 of additional income of a single elderly person and on the first $3,640 of additional income of a couple. Following this initial "tax-back" GIS levies its 50 per cent "tax-back" on the subsequent $3,843 of single elderly incomes and on the subsequent $5,159 of a couple's retirement income.

The Social Planning Council has found that while elderly couples are guaranteed a basically adequate income in Ontario, unmarried elderly persons, particularly those who live alone, are guaranteed incomes which are about $2,000 below Council adequacy standards. The current "tax-back" situation in Ontario, therefore, unfairly discriminates against many single elderly persons by requiring them to have earnings and investment related retirement incomes of around $5,000 a year to achieve (after "tax-backs") the same basically adequate standard of living currently guaranteed to elderly couples who never saved a dollar for their own retirement. Moreover, it is precisely these single elderly persons, most of whom are women, who are least likely to have accumulated significant earnings and investment related retirement incomes. For many of them, the "tax-back" provisions of the GIS-GAINS combined with the inadequacy of the income guarantees they represent, provide a further guarantee - that they will have inadequate retirement incomes. While this is an area of joint federal-provincial concern, the Council believes that the federal government should take the lead in raising and resolving the problem caused by 100 per cent "tax-back" and the inadequate incomes of single elderly persons.

While GIS-GAINS "tax-backs" have created a serious obstacle for single elderly persons seeking an adequate retirement income, the income tax system in Canada also tends to benefit elderly couples over single elderly persons. Excluding provincial tax credits/grants, which are tax-free, the largest tax-free retirement income of a couple in Canada in 1982 was $19,660, assuming they made full use of standard deductions, including those for private pension income and Canadian interest. This tax-free amount was $6,756 more than the adequacy standards of the Social Planning Council.

A single elderly person, however, could have a tax-free income of exactly half the amount of a couple ($9,830), assuming the same careful planning of retirement income. This tax-free amount was only $728 to $1,161 more than a single elderly person who lived alone would need to meet the Council's adequacy standards, depending on whether that person rented or owned a mortgage-free home. Thus the income tax system, to the extent that it can affect retirement incomes, concedes to couples 6 to 9 times more tax-free income (over and above Social Planning Council adequacy standards) than it allows single elderly persons.

However, few single elderly persons have incomes over the estimated maximum tax-free totals. In 1980 only 25 per cent of unattached persons over 65 years had incomes over the "tax-free" level, while about 41 per cent of elderly-headed families were over that level. The main problem for single elderly persons, therefore, is still the inadequacy of basic income guarantees coupled with high "tax-back" rates.

All of the above problems could be easily solved by ensuring that Canada's pensioners receive adequate incomes, in which case they could pay taxes on the same basis as any other citizen.

Summary of Recommendations

1. That maximum benefits under the Canada/Quebec Pension Plan be increased to a level equivalent to 50 per cent of the average industrial wage.

2. That benefits under the Canada/Quebec Pension Plan be placed on a sliding scale such that no individual would earn pension credits at less than half the maximum rate.

3. That the Old Age Supplement (OAS) be increased from its present level of approximately 14 per cent of average industrial wages to a level of 25 per cent of average industrial wages.

4. That the Canada/Quebec Pension Plan remain a universal, compulsory program.

5. That the above recommendations be implemented gradually over a period of 10 years.

6. That the guaranteed income for a single elderly person be set immediately at 70 per cent of that of a couple.

7. That the first priority for investing any accumulated Canada/Quebec Pension funds be national investment priorities, especially social housing.

8. That ways and means of providing inflation protection to Canadian pension plans be studied further with a view to not requiring employees to absorb all of the risk of inflation protection.

9. That the suggestions of the federal green paper regarding survivor's benefits be adopted.

10. That the suggestions of the federal green paper for mandatory splitting by spouses of earned pension credits be adopted.

11. That special income tax provisions for the elderly be eliminated as pensions are improved as per recommendations one through six.